

## Message Text

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TO USMISSION OECD PARIS PRIORITY

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E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: REVISIONS TO EDRC REVIEW OF UNITED STATES

REF: EDR(75)14

1. FYI. EXCEPT FOR PARA 30 REFDOD, THERE IS NOTHING IN THE AMENDED TEXT WHICH WE BELIEVE WOULD WARRANT OUR REFUSAL TO CONCUR IN ITS PUBLICATION. WE ARE DISAPPOINTED BY SECRETARIAT'S FAILURE TO CORRECT A NUMBER OF TECHNICAL DEFICIENCIES WHICH DENEGRATE THE QUALITY OF THE DOCUMENT AND COULD NOT BE DEFENDED BY US. END FYI. COMMENTS IN PARA 2-9 BELOW, KEYED TO SELECTED PARAS IN THE AMENDED REFDOD, SHOULD BE MADE TO SECRETARIAT. PARA 10 ADDRESSES UPDATING OF SELECTED TABLES AS REQUESTED BY SECRETARIAT.

2. RE PARA 34 P. 23, REFDOD, FIRST PART OF THIRD SENTENCE  
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MIGHT BE UPDATED TO REFLECT RECENT STIFFENING OF INTEREST RATES. IN REGARD TO LAST HALF OF THAT SENTENCE WE BELIEVE THESE DEVELOPMENTS ARE IN PART RELATED TO TAX REDUCTIONS, TAX REBATES, AND INCREASED SOCIAL SECURITY

PAYMENTS.

3. RE PARA 23, P. 15, PENULTIMATE SENTENCE ON P. 15 WITH REGARD TO THE FRB CUT IN RESERVE REQUIREMENTS ON FOREIGN BORROWINGS IN APRIL, THE APRIL FEDERAL RESERVE BULLETIN, P. 260, HAS TEXT OF PRESS RELEASE WHICH EXPLAINS REASONS FOR THIS CUT. IT WAS DONE TO BRING SUCH RESERVE REQUIREMENTS MORE IN LINE WITH DOMESTIC RESERVE REQUIREMENTS AND WAS NOT DESIGNED TO STRENGTHEN THE POSITION IN FOREIGN EXCHANGE MARKETS. (RE PARA 22, SECRETARIAT IS AWARE OF OUR RESERVATIONS IN REGARD TO THIS PARAGRAPH.)

4. PARA 28:

A) QUESTION USE OF MODIFIERS "CONSIDERABLY" AND "SUBSTANTIAL" IN 5TH AND 6TH SENTENCES AS ACTUAL EXPORT VOLUME CHANGES WERE MINUS 8 1/2 PERCENT (AGRICULTURAL) AND PLUS 8 PERCENT (NON-AGRICULTURAL) RESPECTIVELY.

B) TREND DECLINE IN VOLUME OF PETROLEUM AND CONSUMER GOODS (7TH SENTENCE) DID NOT ACTUALLY OCCUR UNTIL 4TH QUARTER.

C) INVENTORY ADJUSTMENT REFLECT MAINLY AUTO INVENTORIES WHICH INCREASED FOR U.S. AS WELL AS FOREIGN MODELS AND THUS COULD NOT BE SAID TO REFLECT EXPECTATIONS OF EXCHANGE RATE CHANGES.

D) INCREASE IN INVESTMENT INCOME BASICALLY OCCURRED IN FIRST QUARTER OF 1974.

5. PARA 29:

A) (PENULTIMATE SENTENCE) STRENGTH OF 1974 EXPORTS OF CAPITAL GOODS ALSO REFLECTED LAG IN DELIVERIES RELATIVE TO EARLIER ORDERS. IMPORTS OF CONSUMER GOODS DID NOT DECLINE UNTIL YEAR END.

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B) MEASUREMENT OF REAL TRADE BALANCE (FINAL SENTENCE) DEPENDS CRUCIALLY ON YEAR USED FOR PRICE INDEX BASE. INCREASE IN 1974 IS MUCH GREATER IF 1973 BASE IS USED RATHER THAN 1958.

6. PARA 30: DESPITE EARLIER U.S. OBJECTION, SECRETARIAT PERSISTS IN ATTRIBUTING DEVELOPMENTS IN U.S. CAPITAL ACCOUNT TO INTERMEDIATION OR RESHUFFLING OF OPEC INVESTMENT ALTHOUGH U.S. LENDING PRECEDED INFLOWS OF OPEC FUNDS AND IN ANY CASE ADDED TO TOTAL WORLD DOLLAR HOLDINGS RATHER THAN MERELY REDISTRIBUTING EXISTING HOLDINGS. YOU SHOULD INSIST ON CHANGES IN THIS PARA ALONG FOLLOWING

LINES:

A) IN FIRST SENTENCE, "INTERMEDIATION" SHOULD BE DELETED;

"FINANCING OF FOREIGN EXCHANGE REQUIREMENTS OF OTHER COUNTRIES" WOULD BE ACCURATE SUBSTITUTION FOR "FLOWS OF PETROLEUM FUNDS."

B) IN 4TH SENTENCE, "MEETING THE" COULD REPLACE "THE EXPANDED INTERMEDIATION FUNCTIONS...OPEC COUNTRIES AND."

C) THE FIFTH SENTENCE SHOULD BE REWRITTEN TO REMOVE INFERENCE THAT ALMOST ALL OF THE INCREASE IN US LIABILITIES TO EUROPEAN COUNTRIES REFLECTS INDIRECT OPEC INVESTMENTS. SUCH A CONTENTION IS UNSUPPORTED AND EXAGGERATED. FOR INSTANCE INCREASE IN LIABILITIES TO SWITZERLAND OF \$6.6 BILLION SURELY INCLUDES CONSIDERABLE REINVESTMENT OF NON-OPEC CAPITAL.

D) FINAL SENTENCE SHOULD HAVE ADDITIONAL CLAUSE NOTING THAT EXPANSION OCCURRED MAINLY IN THE FIRST HALF OF THE YEAR IN ANTICIPATION OF FUTURE FOREIGN EXCHANGE REQUIREMENTS OF FOREIGN BORROWERS.

7. PARA 31: IN FIRST SENTENCE, "FLOWS CLOSELY RELATED TO 'RECYCLING'" SHOULD BE REPLACED BY "OUTFLOWS THROUGH BANK LENDING."

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8. PARA 43 (AND SECTION III GENERALLY); ANALYSIS IS KEYED TO DEMONSTRATING THAT "CROWDING OUT" IS NOT A DANGER IN 1975. THIS IS A STRAW MAN. NO ONE HAS PREDICTED "CROWDING OUT" IN 1975. DISCUSSION SHOULD BE DIRECTED TO 1976 AND SUBSEQUENT PERIOD.

9. PARA 59: WE DO NOT AGREE WITH ANALYSIS IN 4TH SENTENCE THAT MORTGAGE INSTITUTIONS ARE PARTICULARLY SENSITIVE TO LONG-TERM TREASURY FINANCING. IN OUR VIEW, IMPACT ON THRIFT INSTITUTIONS STEMS MAINLY FROM COMPETITION OF THEIR DEPOSITS WITH SHORT-TERM TREASURY OBLIGATIONS.

10. TABULAR DATA UPDATE AND REVISIONS

A. TABLE 7: FIRST QUARTER 1975 ACTUAL DATA ARE

(1) FEDERAL GOVERNMENT; RECEIPTS -- 284.1; EXPENDITURES 338.5; BALANCE -54.4; (2) STATE AND LOCAL GOVERNMENTS: RECEIPTS -- 219.8; EXPENDITURES 221.5; BALANCE: (EXCLUDING SOCIAL INSURANCE FUNDS -- 11.5). (NOTE: ACTUAL DATA FOR SECOND QUARTER, AND POSSIBLY REVISIONS

FOR FIRST QUARTER, WILL BE AVAILABLE JULY 17 -- ADVISE  
IF THIS DATA IS DESIRED.) FOURTH QUARTER DATA FOR  
FEDERAL GOVERNMENT ON FULL EMPLOYMENT BASIS ARE:  
RECEIPTS -- 337.2; EXPENDITURES -- 315.4; BALANCE -- 21.8.

B. TABLE 8. SECRETARIAT HAS DATA (PROVIDED BY COMMERCE)  
ENABLING THEM TO REVISE TABLE. HOWEVER, WE WILL  
AIRMAIL TO KOPR A REVISED VERSION.

C. TABLE 10. WE ARE NOT FAMILIAR WITH SECRETARIAT  
ADJUSTMENTS TO BALANCE OF PAYMENTS DATA AND THUS COULD  
NOT PROVIDE REVISIONS OR UPDATE. IN ANY EVENT,  
SECRETARIAT HAS (FROM COMMERCE) LATEST DATA. INGERSOLL

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